

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED GAS)	
ADJUSTMENT FILING OF AUXIER)	CASE NOS. 10288-D and
ROAD GAS COMPANY, INC.)	10288-E

ORDER ON REHEARING

On May 22, 1989, Auxier Road Gas Company, Inc. ("Auxier") filed a petition for rehearing and reconsideration contending that the Commission's Orders in the instant cases resulted in an unjust reduction in rates. On June 12, 1989, the Commission entered its Order finding the issues raised in Auxier's petition identical to those previously raised and denied in Case No. 10288-C¹ where upon rehearing the Commission found that Auxier's rates were appropriate and its petition without merit; but, granting Auxier's petition for the purpose of providing it an opportunity to meet with Commission Staff to correct any misunderstanding or misinterpretation on Auxier's part.

On July 13, 1989, Auxier and Commission Staff met at the Commission's offices. The discussion revolved around the operation of purchased gas adjustments ("PGA"), mechanics of periodic filings, gas purchases and projections. Subsequently and outside of the record in this case, Auxier filed proposed tariff

¹ Case No. 10288-C, The Notice of Purchased Gas Adjustment Filing of Auxier Road Gas Company, Inc., Order dated May 12, 1989.

sheets on July 25, 1989 to revise its PGA or gas cost adjustment ("GCA") clause. On July 27, 1989, Auxier requested that as a part of the Commission's reconsideration of the instant case, the Commission approve its proposed GCA contained in tariff pages filed July 25, 1989. The proposed tariffs contained an effective date of July 1, 1989. Pursuant to KRS 278.180, 30 days notice to the Commission is required before any change in rates may go into effect.

Auxier's failure to provide proper statutory notice has the effect of giving the Commission no effective date and, therefore, the proposed tariffs never went into effect. Auxier further stated its intent on July 27, 1989 to apply rates effective with the July 1989 billing period, based upon its calculations of GCA projections submitted on July 20, 1989, and to adjust rates in the future according to the same methodology. In the ensuing time, Auxier has continued to submit periodic filings using the methodology contained in its proposed GCA without proper notice to or approval by this Commission.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Auxier's request to incorporate its July 25, 1989 proposed GCA tariff filing to be considered as a part of this case is appropriate and should be granted in order to resolve all outstanding issues.

2. Auxier's proposed GCA is in violation of KRS 278.180. It is vague and therefore problematic. The proposed revision is not in the best interest of Auxier or its customers and could, in

fact, result in financial hardship for the utility itself. In order to implement a periodic adjustment clause in a timely fashion to the benefit of Auxier and its customers, the following changes should be made in Auxier's proposed tariff:

a. Proposed Determination of GCR section

(1) Auxier has designated its filing to be a quarterly (although "quartly" appeared apparently as a typographical error) gas cost recovery ("GCR") to be filed prior to the first billing date of the quarter beginning after the close of the base quarter. The billing date is not defined and it is unclear exactly when Auxier would file its notice with the Commission or if it intends to comply with KRS 278.180. Auxier's tariff should explicitly state the filing date and the effective date for rates in compliance with KRS 278.180 pursuant to its GCA clause as set out in Appendix A to this Order.

(2) The designation "projected gas cost" is used in subsection one, with the acronym "PGA" inserted parenthetically. The Billing and Definitions sections use the acronym "PGC." In order to avoid confusion on the part of users of this tariff, as well as other readers who might be comparing this tariff to other approved periodic adjustment tariffs, the designation "expected gas cost" with the acronym ("EGC") should be used in every instance in which reference is made to projected gas cost.

(3) In subsection two, Auxier states that the Actual Adjustment ("AA"), "compensates for differences between the previous quarters projected gas cost and the actual cost of gas during that quarter." It is not clear how Auxier intends to

implement this adjustment. Because 30 days notice must be given prior to the effective date of the GCRs, all gas cost information for the immediately preceding quarter would not be available at the time of filing. Each application will, in fact, have to be filed during the immediately preceding quarter in order to be effective on the first day of the GCR calendar quarter. For this very reason, all quarterly GCA tariffs currently approved and in use specify that the AA shall equal the sum of the AA for the reporting period (with "reporting period" defined in the Definitions section as the 3-month accounting period that ended approximately 60 days prior to the filing date of the updated GCRs) and for the three preceding calendar quarters. The use of an AA such as Auxier has proposed could result in an under- or over-recovery that would be nearly impossible to reconcile. Auxier's proposed language concerning the calendar quarters used for the AA should, therefore, be revised as set out in Appendix A to reflect the aforementioned reporting period plus the three quarters preceding it.

(4) Auxier's proposed subsection three should be modified in order to ensure that the Balance Adjustment ("BA") is not used inappropriately as a "catch-all" for any sort of gas cost, charge, or refund which may be received at any time. The BA should be used only to compensate for any remaining under- or over-collections from AA's which have run their full 12-month course, from previous BA's, and from refund adjustments. The BA subsection should be renumbered as subsection four as set out in Appendix A.

(5) A new subsection three should be included to set out the provisions for a separate Refund Adjustment ("RA"), including directions for the computation of interest. The RA language used should be that set out in Appendix A. This language is the same as that approved for other gas utilities with periodic GCA tariffs and, therefore, in the interest of consistency and equity.

b. Proposed Billing section

This section should be modified as set out in Appendix A to clarify how the GCR rate is used in developing rates to be applied to customers' bills. The GCR rate should be applied to the latest base rates and set out on each applicable rate sheet.

c. Proposed Definitions section

(1) Definition one, which originally defined "average projected cost" and which now defines "average expected cost," should be rejected in its entirety owing to certain unclear references such as "the cost of all costs" and adjustments "for charges expected in volumes which did not exist for the entire period." As to the latter, the Commission assumes that this is a typographical error and that Auxier intended to duplicate a provision for adjusting for "changes" rather than "charges" in volumes, which has been routinely approved in other utilities' GCRs. Rather than risking the possibility of approving charges related to the purchase of non-existent volumes, language similar to that approved for other gas utilities should be substituted as the definition of "average expected cost." This definition should

include the actual calculation methodology for the EGC, as well as the provision for adjusting for changes in volumes. In order to ensure that recovery of line loss is restricted to the maximum of 5 percent permitted by the Commission, a provision for recalculating purchase volumes in the event of excessive line loss should also be included. The definition of "average expected cost" as set forth in Appendix A to this Order should replace that which originally was proposed.

(2) Definition three, which originally defined "base quarters" should be modified to define "calendar quarters" due to the modification of the Determination of GCR section.

(3) Although included as definition four, reporting period is not used anywhere in the proposed tariff. However, it is appropriate to include a definition of the reporting period as it is the basis for the AA. The definition of reporting period should be modified as set out in Appendix A to be consistent with the modification of the AA and, thus, ensure that reconciliation of actual to expected gas cost would occur only when actual numbers are available.

(4) Definition five is not a definition but a provision stating, "[a]ny special circumstances such as refunds, surcharges, and major rate changes will be applied for as a separate [sic] filing." The terms "refunds," "surcharges," and "major rate changes" are not defined. Assuming, in context, that Auxier intends these terms to apply solely to supplier's gas cost, it is inappropriate and unreasonable to remove from a quarterly GCR filing the various components that it is designed to capture.

3. In preparing and filing future applications pursuant to its GCA clause as modified herein, Auxier should use the forms contained in Appendix B.

4. Auxier's revised GCA clause, as modified herein and set out in Appendix A of this Order, is fair, just, and reasonable, in the public interest, and should be effective on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The Commission affirms its Order of May 1, 1989 establishing the fair, just, and reasonable rates of Auxier on May 1, 1989.

2. The Commission affirms its Order of May 2, 1989 establishing the fair, just, and reasonable rates of Auxier on April 1, 1989.

3. Auxier's motion of July 27, 1989 to incorporate its GCA clause filed July 25, 1989 to be considered as a part of this case be and it hereby is granted.

4. Auxier's proposed GCA clause be and it hereby is denied.

5. The GCA clause in Appendix A, attached hereto and incorporated herein, is fair, just, and reasonable, and is hereby approved effective on and after the date of this Order.

6. For all future GCA applications filed pursuant to the tariff approved herein, Auxier shall use the forms prescribed in Appendix B, attached hereto and incorporated herein.

7. Within 30 days of the date of this Order, Auxier shall file its revised tariff setting out the GCA clause authorized herein in conformity with Appendix A.

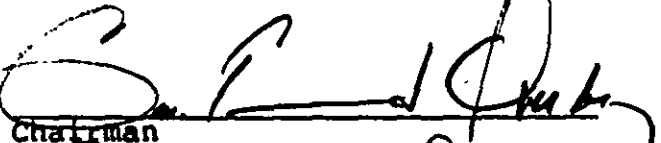
8. Within 30 days of the date of this Order, Auxier shall file its current rates together with an analysis of how it arrived at the rates to be billed and the effective date of said rates.

9. Within 30 days of the date of this Order, Auxier shall file its periodic adjustment pursuant to the GCA clause approved herein for the remainder of the quarter that otherwise would have been filed on or about March 1, 1991 to be effective for service rendered on and after April 1, 1991.

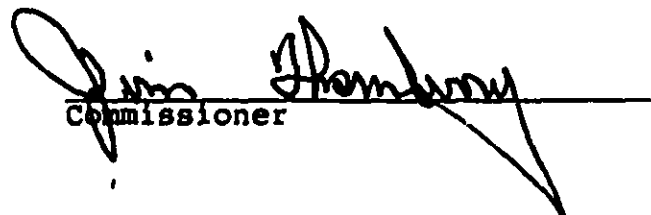
10. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Done at Frankfort, Kentucky, this 10th day of April, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NOS. 10288-D and 10288-E DATED April 10, 1991.

GAS COST ADJUSTMENT CLAUSE

Determination of GCR

The Company shall file a gas cost recovery rate (GCR) with the Commission at least 30 days prior to the first day of each calendar quarter. The GCR shall become effective for billing for service rendered on and after the first day of each calendar quarter.

The gas cost recovery rate is comprised of:

1. The expected gas cost (EGC) on a dollar-per-Mcf basis, which represents the average expected cost of purchased gas based on 12 months of actual usage.
2. The actual adjustment (AA), on a dollar-per-Mcf basis, which compensates for differences between previous quarters' expected gas cost and the actual cost of gas. The AA shall equal the sum of the AA for the reporting period and for the three preceding calendar quarters.
3. The supplier refund adjustment (RA) on a dollar-per-Mcf basis, which reflects the refunds received from suppliers during the reporting period plus interest at a rate equal to one-half of one percent below the average 90-day commercial paper rate for the twelve-month period. In the event of any large or unusual refund, the company may apply to the Commission for the right to depart from the refund procedures set forth herein.
4. The balance adjustment (BA) on a dollar-per-Mcf basis, which compensates for any remaining under- or over-collections which have occurred as a result of prior actual, refund, and balance adjustments.

Billing

The gas cost recovery rate to be applied to bills of customers shall equal the sum of the following components:

$$\text{GCR} = \text{EGC} + \text{AA} + \text{RA} + \text{BA}$$

The GCR will be added to or subtracted from the latest base tariff rates prescribed by Commission Order in the tariff rates stated on each applicable rate sheet within this tariff.

GAS COST ADJUSTMENT CLAUSE
(Continued)

Definitions

For purposes of this tariff:

1. "Average Expected Cost" is the cost of purchased gas which results from the application of supplier rates currently in effect, or reasonably expected to be in effect during the calendar quarter, on purchased volumes for the most recently available twelve-month period, divided by the corresponding sales volume. In the event that line loss exceeds 5 percent, purchased volumes for the twelve-month period shall be calculated as: sales volumes + .95. Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or the Company expects the volumes to change substantially, the Company may make appropriate adjustments to its calculations. Any adjustment of this type shall be described in the quarterly GCR application.
2. The "GCR" is the total of the expected gas cost and all adjustments.
3. The "Calendar Quarters" are: January, February, and March; April, May, and June; July, August, and September; and October, November, and December.
4. "Reporting Period" means the three-month accounting period that ended approximately 60 days prior to the filing date of the updated gas cost recovery rates, i.e., the calendar quarters ended March 31, June 30, September 30, and December 31 of each year.

COMPANY NAME

QUARTERLY REPORT OF GAS COST
RECOVERY RATE CALCULATION

Date Filed:

Date Rates to be Effective:

Reporting Period is Calendar Quarter Ended:

SCHEDULE I
GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGC)	\$/Mcf	
+ Refund Adjustment (RA)	\$/Mcf	
+ Actual Adjustment (AA)	\$/Mcf	
+ Balance Adjustment (BA)	\$/Mcf	
= Gas Cost Recovery Rate (GCR)	\$/Mcf	

GCR to be effective for service rendered from _____ to _____.

A.	<u>EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Total Expected Gas Cost (Schedule II)	\$	
	+ Sales for the 12 months ended _____	Mcf	
	= Expected Gas Cost (EGC)	\$/Mcf	

B.	<u>REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Supplier Refund Adjustment for Reporting Period (Sch. III)	\$/Mcf	
	+ Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	+ Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	
	= Refund Adjustment (RA)	\$/Mcf	

C.	<u>ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Actual Adjustment for the Reporting Period (Schedule IV)	\$/Mcf	
	+ Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Second Previous Quarter Reported Actual Adjustment	\$/Mcf	
	+ Third Previous Quarter Reported Actual Adjustment	\$/Mcf	
	= Actual Adjustment (AA)	\$/Mcf	

D.	<u>BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
	Balance Adjustment for the Reporting Period (Schedule V)	\$/Mcf	
	+ Previous Quarter Reported Balance Adjustment	\$/Mcf	
	+ Second Previous Quarter Reported Balance Adjustment	\$/Mcf	
	+ Third Previous Quarter Reported Balance Adjustment	\$/Mcf	
	= Balance Adjustment (BA)	\$/Mcf	

SCHEDULE II
EXPECTED GAS COST

Actual* Mcf Purchases for 12 months ended _____

(1) <u>Supplier</u>	(2) <u>Dth</u>	(3) Btu <u>Conversion Factor</u>	(4) <u>Mcf</u>	(5)** <u>Rate</u>	(6) (4)x(5) <u>Cost</u>
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Totals

Line loss for 12 months ended _____ is _____% based on purchases of _____ Mcf and sales of _____ Mcf.

	<u>Unit</u>	<u>Amount</u>
Total Expected Cost of Purchases (6)	\$	
+ Mcf Purchases (4)	Mcf	
= Average Expected Cost Per Mcf Purchased	\$/Mcf	
x Allowable Mcf purchases (must not exceed Mcf sales + .95)	Mcf	
= Total Expected Gas Cost (to Schedule IA.)	\$	

*Or adjusted pursuant to Gas Cost Adjustment Clause and explained herein.

**Supplier's tariff sheets or notices are attached.

SCHEDULE III

SUPPLIER REFUND ADJUSTMENT

Details for the 3 months ended _____ (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
Total supplier refunds received	\$	
<u>+ Interest</u>	\$	
= Refund Adjustment including interest	\$	
<u>+ Sales for 12 months ended _____</u>	Mcf	
= Supplier Refund Adjustment for the Reporting Period (to Schedule IB.)	\$/Mcf	

SCHEDULE IV
ACTUAL ADJUSTMENT

For the 3 month period ended (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Month 1</u> <u>()</u>	<u>Month 2</u> <u>()</u>	<u>Month 3</u> <u>()</u>
Total Supply Volumes Purchased	Mcf			
Total Cost of Volumes Purchased	\$			
+ Total Sales (may not be less than 95% of supply volumes)	Mcf			
= Unit Cost of Gas	\$/Mcf			
- EGC in effect for month	\$/Mcf			
= Difference [(Over-)/Under-Recovery]	\$/Mcf			
x Actual sales during month	Mcf			
= Monthly cost difference	\$			

	<u>Unit</u>	<u>Amount</u>
Total cost difference (Month 1 + Month 2 + Month 3)	\$	
+ Sales for 12 months ended <u> </u>	Mcf	
= Actual Adjustment for the Reporting Period (to Schedule IC.)	\$/Mcf	

SCHEDULE V
BALANCE ADJUSTMENT

For the 3 month period ended _____ (reporting period)

<u>Particulars</u>	<u>Unit</u>	<u>Amount</u>
(1) Total Cost Difference used to compute AA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the AA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the AA was in effect.	\$	
Equals: Balance Adjustment for the AA.	\$	_____
(2) Total Supplier Refund Adjustment including interest used to compute RA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the RA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the RA was in effect.	\$	
Equals: Balance Adjustment for the RA.	\$	_____
(3) Total Balance Adjustment used to compute BA of the GCR effective four quarters prior to the effective date of the currently effective GCR.	\$	
Less: Dollar amount resulting from the BA of _____ \$/Mcf as used to compute the GCR in effect four quarters prior to the effective date of the currently effective GCR times the sales of _____ Mcf during the 12-month period the BA was in effect.	\$	
Equals: Balance Adjustment for the BA.	\$	_____
Total Balance Adjustment Amount (1) + (2) + (3)	\$	
+ Sales for 12 months ended _____	Mcf	_____
= Balance Adjustment for the Reporting Period (to Schedule ID.)	\$/Mcf	